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FISCAL IMPACT STATEMENT

LS 6172

BILL NUMBER: SB 99

NOTE PREPARED: Nov 25, 2012

BILL AMENDED:

SUBJECT: Use and Taxation of Gold and Silver Coins.

FIRST AUTHOR: Sen. Banks

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill specifies that gold and silver coins issued by the United States government are legal tender in Indiana. It provides that a person may not compel another person to tender or accept gold or silver coins that are issued by the United States government, except as agreed upon by contract.

The bill provides that the sale or other exchange of gold or silver coins issued by the United States government is exempt from state gross retail tax and use tax. It also specifies that capital gains incurred on a sale or exchange of gold or silver coins issued by the United States government are not included in adjusted gross income for purposes of the state Adjusted Gross Income (AGI) Tax.

Effective Date: July 1, 2013; January 1, 2014.

Explanation of State Expenditures:

Explanation of State Revenues: *Summary* - The bill is expected to reduce the amount of state tax revenue from: (1) Sales and Use Tax on the sale or exchange of gold and silver coins issued by the U.S. government; and (2) AGI Tax on capital gains incurred on a sale or exchange of gold and silver coins issued by the U.S. government. Additionally, if gold or silver coins are used more frequently to purchase items, the state would forego additional revenue that would result from the capital gains generated in the transactions. The potential estimated reduction in revenue deposited in the state General Fund is summarized in the table below. The estimated reduction in Sales and Use Tax revenue would begin in FY 2014, and the estimated reduction in AGI Tax revenue would begin in FY 2015.

Tax Exclusion	Revenue Lost (in millions)
Retail Purchase of Gold and Silver Coins*	\$5.0
Capital Gains from the Sale of Gold and Silver Coins	4.4
Total	\$9.4
*Assumes 2% of U.S. Mint 2011 gold and silver coins sales by weight were made to Indiana residents.	

Background: State Sales and Use Tax - The purchase of gold or silver coins from a retail business is subject to Sales and Use Tax under current law. There is not a reliable data source for the purchases of coins by Indiana residents. However, the U.S. Mint publishes coin sales by number and weight. In 2011, 1.1 million ounces of gold coins and 42.1 million ounces of silver coins were sold. Based on Indiana's share of national personal income, it is estimated that nearly 2.0% of the 2011 coin sales occurred in Indiana.

On November 20, 2012, the price of an American 1 ounce Gold Eagle was \$1,796 and the price of a 1 ounce American Silver Eagle was \$36.76. Using these prices, the estimated total sales attributable to Indiana totaled \$71.2 M, with Indiana Sales Tax estimated at \$5.0 M.

Sales Tax revenue is deposited in the state General Fund (99.848%), the Commuter Rail Service Fund (0.123%), and the Industrial Rail Service Fund (0.029%).

Adjusted Gross Income Tax - The calculation of Indiana's AGI Tax begins with federal adjusted gross income (FAGI), with capital gains being one component of FAGI. Capital gains on the sale of coins are classified as the sale of collectibles under the Internal Revenue Code and taxable upon the sale of the coin. Under the bill, the capital gains incurred on a sale or exchange of gold or silver coins issued by the U.S. government would be deducted from Indiana AGI. The deduction would be effective for capital gains incurred on sales or exchanges after December 31, 2013.

Federal individual income tax returns filed by Indiana residents reported about \$5.0 B in net capital gains on average between CY 2000 and CY 2010. Of all net capital gains, the Internal Revenue Service (IRS) found that 2.81% were attributable to the sales of other assets, which includes the sale of collectibles, bad debts, and copyrights. Based on the IRS study, it is estimated that the deduction could reduce Indiana taxable income by an estimated \$137.1 M annually, with a revenue loss estimated at \$4.4 M annually beginning in FY 2015. This estimate is the potential maximum revenue loss. The revenue loss could begin in FY 2014 to the extent that taxpayers reduce quarterly estimated payments in response to the deduction.

Revenue from the AGI Tax is distributed to the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: The bill is estimated to decrease Indiana taxable income, so counties with a local option income tax (LOIT) could experience a decrease in revenue. Using the median current LOIT rate of 1.45%, this bill has the potential to decrease statewide LOIT revenue by \$2.0 M annually beginning in FY 2015. This change would decrease the overall base and be reflected in future years.

Local revenues will also be reduced to the extent that a local unit receives funds from the Commuter Rail Service Fund or the Industrial Rail Service Fund.

State Agencies Affected:

Local Agencies Affected: Counties with a local option income tax or receive Sales Tax revenue.

Information Sources: LSA Income Tax Database; IRS: Statistics of Income Reports, *Table 2. Individual Income and Tax Data, by State And Size of Adjusted Gross Income*, IRS: Statistics of Income Reports, *Sales of Capital Assets Reported on Individual Returns*, Winter 2010; IRS: Statistics of Income Bulletin, *Sales of Capital Assets Reported on Individual Income Tax Returns, 2007*, Winter 2010; United States Mint, *2011 American Eagle, American Buffalo, and American the Beautiful Silver Bullion Sales Totals*, Blanchard and Company, Inc.

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